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SUBJECT: TURKEY: US STEEL INTERESTED IN PRIVATIZATION

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SENSITIVE BUT UNCLASSIFIED. BUSINESS INFORMATION.

1. (SBU) Three Pittsburgh based US Steel executives called on Ambassador Edelman December 14 to discuss United States Steel's interest in purchasing the Turkish government's 46% stake in Erdemir, Turkey's largest steel company. Led by Senior VP John Connelly, the group noted that the pending sale, which the Turkish government now says will begin in the first quarter of 2005, had attracted significant interest from US Steel and other global steel companies, including French-Belgian Arcelor and the Indian-UK Lakhsmi group, in the context of the ongoing consolidation of the global steel industry. US Steel has longstanding business relationships with Erdemir and believes its acquisition would create synergies with US Steel facilities in Slovakia and Serbia.

2. (SBU) The executives highlighted the success of US Steel's acquisitions of steel plants in Slovakia and Serbia and the attention the company had paid to working with the government and labor unions. These plants have generated both new production and employment. US Steel has retained the Istanbul offices of Goldman Sachs and Raymond James as financial consultants as well as a local law firm. The group met Finance Minister Unakitan December 13 and is meeting with Privatization Authority chief Metin Kilci December 14. The executives said that they would want to purchase a controlling share in the company (which is also traded on the Istanbul stock exchange) and were concerned about the potential scope of any "golden share" retained by the government.

3. (SBU) Comment: A rough estimate of the dollar size of the investment was \$2 billion, which would make an important contribution to the Turkish economy -- especially given the paltry FDI inflows Turkey currently receives. It would also be an important asset in the U.S.-Turkey economic relationship. The Ambassador cautioned the executives that the company should go into this process with its eyes open to the pitfalls of Turkey's opaque legal and regulatory systems, which have plagued some other U.S. investors. There will also be political sensitivity on both the right and left of Turkey's political spectrum to the acquisition of what is seen as a successful Turkish company by a foreign firm. (Erdemir earned a \$260 million profit last year -- reftel describes Econoff's visit to Erdemir and notes the company's historical ties to the U.S.) The US Steel executives expected that their biggest competitor would be Arcelor, which would no doubt attempt to leverage Turkey's expected EU accession process. US Steel will file the standard advocacy request forms with the Department of Commerce.

EDELMAN